MICROFINANCE WORKSHOP REPORT

For
USAID/Zambia
And
Credit Management Services
Kabwe, Zambia

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This workshop was developed to meet the need of CMS managers for general background in microfinance programming. It was intended to rapidly familiarize them with the elements of appropriate and sustainable program design and enable them to identify needed changes to their program.

The training is an adaptation of material developed by the CARE SEAD Unit while Sue Waterfield was the co-director of the unit. One of the program design tools developed was a Program Design Framework, which was used as an outline for this workshop. The elements of this framework approximately correspond to the sessions in the workshop: clients, environment, interventions, methodology, impact, efficiency and sustainability. By reviewing each of these topics in turn, and exploring their relationship to each other, participants were able both to understand the key concepts of microcredit programs and to evaluate their own program in light of this knowledge.

1.0 INTRODUCTION TO THE PROGRAM DESIGN FRAMEWORK

Participants were introduced to the Program Design Framework (PDF) designed by CARE (see next page). The objective of the PDF is to familiarize participants with the elements of credit program design, and to introduce the PDF as a diagnostic and design tool. As an introduction to the framework, participants worked in small groups to put together puzzles of the PDF.

PROGRAM DESIGN FRAMEWORK

	Target Group	Environment	Existing Services
SITUATION	• Economic activities • Demographic characteristics • Cultural characteristics	• Market environment • Economic environment • Government policies • Accessibility	• Available Financial Services • Available Business Development Services
	Interventions	**Methodology**	**Delivery Channel**
PROGRAM	• Participant-Level Services • Institutional-Level Services • Operating Environment Level Services	• Individual lending • Peer lending 1. Solidarity Group 2. Community Based Organizations	• Working with Single Partners • Working with a combination of Partners • Direct service delivery
	Impact	**Efficiency**	**Sustainability**
GOALS	• Household • Local Economy • Program Scale	• Credit indicators • Service indicators • Savings indicators • Management indicators	• Service delivery sustainability • Institutional sustainability

2.0 SITUATION

The first row in the Program Design Framework is **Situation**. This involves the analysis of the factors which external to the program, including **Target Group**, **Environment** and **Existing Services**.

(a) Target Group
Target Group, or clients, is the first box on the PDF because the needs and characteristics of clients are the basis for the program design.

(b) Environment
Aspects of the environment in which both the program and the clients operate come second. These aspects greatly influence program design because of their effects on both the program and the clients. This box includes economic environment, accessibility, market environment, and government policies.

(c) Existing Services

This refers to other organizations that offer financial and business development services to microentrepreneurs in the area in which the program intend to operate.

2.1 CMS' Clients

(a) Information required about the Target Group includes Economic Activities, Demographic Characteristics and Cultural Characteristics. In the workshop, the primary emphasis was on the scale of activity of assisted businesses, as described below.

(b) Following is a continuum of businesses and their characteristics, which CARE also developed. The characteristics of businesses across the continuum are key to determining the best and most appropriate services to provide to these businesses.

Scale of Business	Income-Generating Activities	Microenterprises	Small Enterprises
Profit used for	• Household consumption	• Household consumption and reinvestment in enterprise	• Reinvestment in enterprise
Strategy	• Diversification to increase household income & minimize risk	• Specialization to increase household income	• Specialization to increase profits.
No. of employees	0	0 - 10	11 - 50
Source of labor	Self\family	Self\family\paid labor/apprentices	Paid labor
Levels of investment in worksite	Little or none	Some investment (little)	Extensive investment
Level of technology	Traditional	Traditional\older (out-dated)	Modern
Level of fixed assets	Little or none	Small amount	Extensive
Owner's time devoted to business	Part-time\seasonal occupation for owner; multiple activities	Full-time	Full-time
Skill level required	Traditional\low	Moderate to high	Higher skill level
Level of Literacy	Illiterate\semi literate	Low to medium levels of literacy	Literate
Level of record keeping	None	Few written records	Extensive records and systems

(c) Participants worked in small groups to describe CMS clients. They developed the following description:

1. Scale of business activities

- Primarily Income Generating Activities (IGAs) and some Microenterprises (MEs) in urban areas.

2. Sector of business activity

Sector	rural (%)	urban (%)
Trading	91	50
Manufacturing	2	20
Service Industry	2	10
Agriculture	5	20

3. Time in operation: Minimum of 6 months. No start-ups.

4. Age limit: 21 - 65 years

5. Citizenship: Zambian citizens or permanent residents in Zambia.

6. Gender ratio: 75% women and 25% men.

7. Educational/Literacy level of clients

- 30% illiterate
- 70% semi literate and literate

8. Cultural Characteristics

- more cultural cohesion in rural areas than urban areas.
- better perception of credit by urban clients.
- poor attitude towards credit by clients in rural areas because of history in Zambia and political interference

2.2 Situation Analysis of CMS

For a program to be successful, it must build upon on the positive aspects of the situation (clients, environment and existing services) and minimize risks from the identified threats. Participants worked in small groups to identify opportunities and threats in the CMS' environment.

SITUATION ANALYSIS OF CMS

	OPPORTUNITIES	THREATS
CLIENT BASE: **Economic Activities** (scale, sector, time in operation) **Demographic Characteristics** (age, citizenship, gender, education/literacy) **Cultural Characteristics** (cultural cohesion, perception of credit)	• High demand for services – large number of potential clients • Stronger cultural cohesion in rural areas • Clients with business experience (no start ups) more likely to succeed • Focus on women results in easier group formation, higher repayment • Age of client group is low overall • Lack of formal employment – more individuals entering informal sector • Market vendors (majority of CMS' clients) repay well	• Perception of credit as grant • Image of NGOs as charitable organizations • Poor attitude about loan repayment • Low level of literacy • Lack of cultural cohesion in urban areas • Agriculture clients have different needs • AIDS/death • Health risks of older clients • Non-citizens in border districts • No stigma about stealing
ENVIRONMENT: **Market Environment** (market structure and opportunities) **Economic Environment** (inflation rate) **Government Policies** (small business regulations, legal structures, financial sector regulations) **Accessibility** (infrastructure, population density)	• Good market structure, size and availability in urban areas • Free market economy – little government control • Favorable small business regulations • Good infrastructure in urban areas • High population density in urban areas • Lack of established businesses (room for expansion of informal sector markets) • Encouragement from government (e.g., Vendors' Desk)	• Lack of infrastructure in rural areas (roads, communication) • High inflation rate • Low population density in target areas (rural) • Political interference due to elections • Government interventions • Lengthy/slow legal procedures • Financial sector regulations • Corruption • Limited markets for client products in rural areas • Government grants in CMS' operating areas
EXISTING SERVICES: **Available Financial Services** (informal and formal sources of savings and credit) **Available Non-Financial Services** (technical, marketing, business management)	• Collaboration from Bank of Zambia and other formal financial sources • Little competition in rural areas • Donor projects • Networking with other organizations offering similar services • Collaborating with organizations offering complementary services	• Organizations offering same services in target areas • CETZAM – low interest rates • Few complementary services; e.g. no access to training services for clients • Short-term donor-funded projects offering similar services • Loans more accessible from other MFIs and moneylenders

After identifying the opportunities and threats described in the table above, participants determined which were the most important of those opportunities and threats, and what might be done about them.

(a) Suggestions for capitalizing on the priority opportunities currently open to CMS:

- Strong cultural cohesion in the rural areas permits CMS to rely more on the solidarity group methodology
- Little competition in the rural areas encourages rapid expansion by CMS, which has the best working knowledge of those areas
- High demand for services in the rural areas permits expansion
- Focus on women results in easier group formation and higher repayment rates; CMS should therefore find ways to be increasingly responsive to women
- High demand for services in the urban areas should encourage CMS to focus on providing appropriate products to urban clients and providing sufficient loan funds

(b) Suggestions for diminishing the key threats facing CMS:

- Low population density means CMS should conduct better, more in-depth studies before identifying areas for expansion
- Some clients face problems with markets for their products; CMS should analyze the possibility of providing training to clients in market research. Such training should not substantially increase amount of time spent in training; therefore existing training must be made more efficient
- CMS must become more efficient by focusing on streamlining all aspects of the credit methodology, including decreasing loan documentation, quicker disbursements, quicker subsequent loans, and minimizing transaction costs to the client.
- Overcome competition by focusing on improving customer relations
- Delinquency and poor attitudes toward credit may be improved by greater emphasis on discipline throughout the organization and better training in credit management and the benefits of the program to clients. Training might also address politicians and their influence on clients.
- Threat of AIDS posed to client and staff; address through AIDS awareness in client training and insurance against death

3.0 PROGRAM

Program is the second row of the PDF. This row addresses key elements of the program itself, including interventions (services), methodology and delivery channels. The first row, situation, influences the decisions made concerning the elements found in the second row.

3.1 Interventions

An intervention is another word for a **service**. Services can be provided at three levels: client level, institutional level and operating environment level, as described below.

Microenterprise Level Interventions	
Financial Services	Credit and/or Savings Services
Business Development Services	Business Management Services Technical Services Marketing Services
Institutional Level Interventions	
Methodological Assistance	Selection and implementation of appropriate lending methodologies
Institutional Strengthening	Strategies planning, human resource development, management and governance, financial management
Financing	Operational expenses Loan funds: grants loans, guarantees.
Operating Environment Level Intervention	
Advocacy and Policy	Influencing national policies that affect microenterprises and microenterprise programs, often through consortia of NGOs
Subsector Analysis	Identification of constraints and opportunities that affect microenterprise within certain subsectors, that can be addressed through leveraged interventions

3.2 Proposed Amendments to the Current CMS policies

Participants reviewed the current CMS loan policies and proposed the following for additional discussion:

- Size of loan in urban areas
- Reduce training period
- Reduce turnaround time on subsequent loans
- Increase initial loan size due to inflation
- Decrease required documentation, especially with semi-literate clients
- Examine additional lending product for micro-enterprises
- Shorten effective loan term (reduce delinquency)
- Review loan request procedures to make them more efficient
- Review equity policies and processes, especially withdrawing equity
- Give Credit Officers a targeted retention rate
- Review loan terms for 4th & 5th loan cycles to 6-9 months and 6th loan cycle and above to be 9-12 months.
- Review repayments for 6th loan cycle and above so that clients pay only interest in the first 4 months (to be done case by case).

4.0 METHODOLOGY

Participants discussed the various lending methodologies and their similarities and differences, first focusing on the differences between peer and individual lending.

	PEER LENDING	INDIVIDUAL LENDING
Collateral	Loans are mutually guaranteed with other borrowers	Loans are guaranteed by collateral and/or co-signers
Participant Screening	Potential clients are screened by their peers	Potential clients are screened by credit checks and character references
Loan Analysis	Little or no analysis is made of the business, except by peers, who may be familiar with it	Loan amount is based on thorough viability analysis
Loan Flexibility	Loan size and term closely follows a predetermined gradual growth curve	Loan size and term can be tailored to the needs of the business
Loan Size and Term	Loans are generally short, and amounts small, to avoid breakdown of repayment incentives	Loans can reach large sizes and lengthy terms
Staff-client Relationships	Program staff have a distant relationship with large numbers of clients	Program staff work to develop close, long-term relationships with clients
Cost/Participant	Each client represents a small cost in terms of staff workload	Each client represents a significant investment of staff time and energy
Cost/Portfolio	High cost, owing to relatively small size of many loans – despite efficiencies gained by working through groups	Low cost, owing to relatively larger size of loans, despite inefficiencies of working with fewer people

<table>
<tr><th colspan="4">4.1 Peer Lending Methodologies</th></tr>
<tr><td colspan="4">Loans are mutually guaranteed with other borrowers
Potential clients are screened by their peers
Little or no analysis is made of the business
Loan size and term closely follows a predetermined gradual growth curve
If loans become too large or too long, repayment incentives can break down
Program staff have distant relationship with large numbers of clients
Groups of peers are used to reduce staff workload</td></tr>
<tr><td colspan="2">Solidarity Groups</td><td colspan="2">Community-Based Organizations</td></tr>
<tr><td colspan="2">Program does not develop financial self-management capability of the group
Participants are considered long-term “clients” of the program</td><td colspan="2">Program does develop financial self-management capability of the CBO
Program works towards goal of independence of the CBO</td></tr>
<tr><td>Grameen</td><td>Latin American SG</td><td>CMRLF</td><td>SLA</td></tr>
<tr><td>Group formation is used as a means to introduce social change
Federations form basis for institution</td><td>Group formation is simply a loan guarantee mechanism</td><td>CBO receives and manages external funds (either grants or loans), in addition to member savings</td><td>CBO generates all funds through internal savings mobilization or retained interest; receives no outside funding</td></tr>
</table>

4.2 Relationship between methodology/target group/environment

The choice of methodologies is closely related to the chosen target group and the environment in which the organization works, as described below.

(a) Target Group and Methodology

Target Groups	Appropriate Methodologies
1. Income Generating	• Primarily lending to Community-Based Organizations (CBOs) • Some Solidarity Group Lending
2. Micro Enterprises	• Primarily Solidarity Group Lending • Some lending to CBOs and individuals
3. Small Enterprises	• Individual lending

(b) Environment and Methodology

Environment	Appropriate Methodologies
1. Urban	• Individual lending • Latin America SG • Some Grameen-style solidarity group lending
2. High Density Rural	• Grameen-style solidarity group lending • Some Latin American SG, CMRLFs and Savings and Loan Associations
3. Low Density Rural	• Community Managed Revolving Loan Funds (CMRLF) • Savings and Loan Associations • Some Grameen-style lending

4.3 Changes to CMS' Methodology

Participants proposed that the following aspects of CMS; methodology be reviewed in order to make improvements:

- Decrease paperwork
- Make the group more responsible for loan approval and loan repayments, particularly delinquency
- Credit Officers should deal primarily with Office Bearers once loans are disbursed
- Whole group must be penalized if one member defaults on a payment
- Move borrowers in later cycles (perhaps 4th and up) to individual loans, depending on loan size required
- Increase emphasis on peer lending - determine what responsibilities should be devolved to group
- Reduce caseload in rural areas and increase in urban areas
- Hire Credit Officers who live in target areas to reduce transportation time

5.0 IMPACT

Impact, the first box in the goal row, is the ultimate goal of the program, to have a positive effect on the clients and their households and on the local economy. Impact refers to the expected changes at various levels that can be achieved through a micro credit program. Potential impact includes the following:

(a.) Household level
- increased household income
- increased household security

(b.) Local Economy level
- secondary income effects, including:
  - generation of employment
  - backward linkages
  - forward linkages

(c.) Program Scale
- Target groups and trade off.

5.1 Analysis of the impact of a K250,000 loan fund

Participants studied the following example of different impact that can be expected from loan programs, depending on the scale of the supported businesses. The example shows three different programs, each with a loan fund of 250,000 Zambian Kwacha.

Scale of Activity	**IGA**	**ME**	**SE**
Loan Fund	K250,000	K250,000	K250,000
Return on investment	100%	50%	25%
Total profit generated	K250,000	K125,000	K62,500
Average loan	K200	K1,000	K3,000
No. of enterprises assisted in 1 year	1,250	250	83
Jobs created per enterprise	0	1	2
No. of jobs created	0	250	166
Annual income/job	0	K600	K1,200
Total annual employee income	0	150,000	199,200
Total annual increased income (enterprise profit + employee income)	K250,000	K275,000	K261,700
No. of beneficiaries enterprise + jobs created x 5 per household	6,250	2,500	1,245
Annual increase income per beneficiary	K40	K110	K210

6.0 EFFICIENCY AND SUSTAINABILITY

Efficiency is maximizing the use of resources available to achieve a desired impact. Efficiency is in the middle of the goal row because it permits both greater impact and greater sustainability (decreases costs relative to income). The principle determinant of efficiency is the methodology and the number and mix of services provided to the client. The methodology and interventions determine the amount of time that is spent with the client. The most important element of efficiency is maximizing field staff productivity, because costs associated with Credit Officers are a significant percentage of overall operating cost. Income is a direct result of Credit Officers' work and costs are the same regardless of the number of clients.

6.1 Efficiency Indicators

The following indicators can be used to measure field staff productivity at CMS:

Indicators	How it is measured	What is measured
Loan Portfolio per Credit Officer	Value of loans outstanding divided by No. of Credit Officers	Financial productivity per Credit Officer
Return on Portfolio	Financial income divided by outstanding portfolio	Financial productivity of credit services offered
Operating Portfolio	Total operating cost divided by net outstanding portfolio	Efficiency of lending operations (how much do you spend to get money into the field)
Operating cost per participant	Operating costs divided by number of loans made	Efficiency of disbursed loans

6.2 Credit Officer Caseload

Credit Officer caseload is the starting point for determining sustainability. Each month, clients are distributed in the following categories: clients receiving loans for the first time, clients receiving subsequent (2nd, 3rd, 4th, etc.) loans, and clients who have a loan and are in the process of repaying. Participants analyzed the caseload for a single Credit Officer for CMS as follows:

Number of loans disbursed per month	27
Number of first loans per month	(15)
Number of follow up loans per month	=12
Total number of active clients	245
Number of loans disbursed per month	(27)
Clients needing monthly supervision	=218

6.3 Time required to process first loans at CMS

Participants dedicated a substantial amount of time to determining the amount of time spent per client to process a first loan. Totals varied among Credit Officers and among Regional Offices. The following table is the result of discussion among the various groups.

Credit Officer hours spent in group sessions	9
Number of participants who complete training	8
Credit Officer hours per client in group training	1.1
Credit Officer hours for individual training	0
Credit Officer hours for business analysis	0.3
Verification of co-signers, collateral etc.	0
Total Credit Officer hours per client for first loan	**1.5**

6.4 Analysis of use of time by Credit Officers at CMS

The last table is intended to analyze how Credit Officers spend their time. Again there were differences among groups. The following table represents an average of the figures developed by the groups.

Analysis of Use of Time

First loan analysis	15 clients/month x	1.7 hrs/client	25.9hrs/month
Follow up loan analysis	12 clients/month x	0.52hrs/client	6.3hrs/month
Supervision/Training	218 clients/month x	0.33hrs/client	73hrs/month
TOTALS	245 clients		105.2hrs/month
Hours worked per month (hours/week x 4.3 weeks/month)			157.5hrs/month
Percentage of work time spent **WITH CLIENTS**			68.2%
Percentage of work time spent in **TRANSPORTATION**			23.6%
Percentage of work time spent in **PAPERWORK**			12%
Percentage of time spent in **MEETINGS, STAFF TRAINING, ETC.**			6%
UNPRODUCTIVE TIME (vacation, holidays, strikes, tardiness, etc.)			14%
Total distribution of work time (must not exceed 100%)			123%

6.5 Measures to undertake to improve efficiency at CMS

Because the table above revealed hours required greatly in excess of total hours required to be worked each month, participants suggested the following measures for improving the efficiency of Credit Officers.

- work more hours
- reduce training period for first loans
- reduce unproductive time
- reduce monitoring time of loans
- reduce time spent in transportation
- vary caseloads for urban and rural Credit Officers

- increase client retention rate
- decrease delinquency in the program

Participants also proposed other measures for increasing CMS' efficiency:

- Listen to field staff and learn from them; address problems quickly
- Improve communication between Regional Offices and Headquarters; all work as a team
- Increase quality of services
- Closer adherence to company policies
- Planning checklist for all regional office staff
- Decrease delinquency through increased discipline
- Improve client retention rates through better service delivery

7.0 CUSTOMER SERVICE

Participants proposed the following measures for improving customer service:

- Quicker loans
- Less paperwork
- Understand their needs more
- More efficient service delivery
- Decrease Credit Officer turnover due to fraud through better hiring decisions
- Timely loan disbursement
- Improve communications (personal level as well as infrastructure)
- Easy to understand policies
- Shorter training – appropriate to client needs as well as those of CMS
- Higher loan amounts in later cycles
- Client workshops – bring clients together to learn from them and from each other
- Exit interviews
- Transparency – increase client confidence
- Dedicated staff
- Show CMS cares about clients – thank and encourage clients, even defaulters
- Increase resources available to field staff – communication, transport, funds
- Motivate Credit Officers, then they will provide a better service
- Incentives for good clients